

Congress Approves Student Loan Bill Containing 529 Financial Aid Provision

Last month, Congress approved a compromised version of a student loan bill that would take money from federal subsidies paid to lenders and apply them to increases in Pell Grants and other middle class college lending breaks.

The College Cost Reduction and Access Act (H.R. 2669), approved on September 7, 2007, includes a provision that closes a loophole in the financial aid formula for 529 accounts owned by dependent students, effective with the 2009-2010 school year. Dependent students with self-owned 529 accounts and Coverdell Education Savings Accounts will no longer be able to exclude those assets in the determination of financial need, effective with the 2009/2010 school year. Instead they will be treated as parent assets, the same as parent-owned 529s and Education Savings Accounts. The bill also clarifies that tax-free distributions from a 529 plan, from a non-529 state prepaid tuition plan, or from a Coverdell ESA are not reportable as income or support on the federal financial aid application. The bill was signed by the President last week.